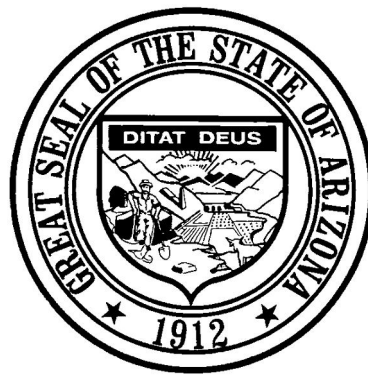


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RISK MANAGEMENT DIVISION**



FISCAL YEAR 2010 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2010 Annual Report, as required by ARS §41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on loss prevention efforts and overall achievements of the Risk Management Division during the fiscal year.

The Risk Management Division was established in 1976, and is tasked with the management and mitigation of liability, property and workers' compensation claims. Statutes found in ARS §41-621 et seq., and administrative rules found in AAC- R2-10-101 through R2-10-601, outline the parameters of the program, including coverage for agencies, employees, boards and commissions. The Risk Management Division provides consultants to state agencies to assist agency personnel develop specific programs that reduce or eliminate risk to the state. On an annual basis, Risk Management performs a comprehensive evaluation of its insurance program to determine the proper mix of purchased commercial insurance and risk retention.

Funding for Risk Management programs is provided from the Risk Management Revolving Fund. Revenues into the fund are generated as follows:

- An actuarial projection is developed for property and liability expenditures, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums and attorney general defense. The total is then allocated and invoiced to agencies based on a formula that assesses risk exposure as well as historical losses.
- An actuarial projection is also developed for workers' compensation time loss expenditures, medical, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and attorney general defense. The total is then allocated to agencies based on an allocation method from the National Council on Compensation Insurance (NCCI). The NCCI method calculates a rate per payroll using employee classifications modified by the agency's historical losses.

ACHIEVEMENT AND GROWTH

Fiscal Year 2010 marked a year of significant achievements and continued growth.

- During Fiscal Year 2010, over 30,000 state employee driver records were reviewed and monitored every two weeks through the Arizona State Employee Driver Record Application (ASEDRA) Program. ASEDRA was developed in Fiscal Year 2009 allowing state agencies to obtain and review motor vehicle records of state employees identified as authorized drivers in accordance with the AAC-Rule R2-10-207.12.
- The Loss Prevention Section utilized soft market negotiation strategies to reduce excess insurance expenses by approximately 15% resulting in savings of \$1,725,384.
- Loss Prevention conducted four separate Risk Insurance training sessions with a total of forty-five attendees completing the curriculum. Each session consisted of four separate components, including practice workshops, totaling approximately fourteen to sixteen hours of training. The training materials included risk terminology, risk identification, risk management alternatives and contract compliance.
- The Loss Prevention Section engaged in an analysis and evaluation of specialty lines insurance coverage available to state vendors. Standardized insurance language was developed and provided to agencies for utilization in future service contracts to optimize risk transfer opportunities.
- Loss Prevention implemented a number of improvements and efficiencies to assist state agencies address loss exposures:
 - *Developed the Arizona Department of Administration's asbestos management program and procedures manual*
 - *Developed the Arizona Department of Administration's electrical safety lock out/tag out program*
 - *Reviewed and developed various state agency early return to work policies*
 - *Provided consultation during the relocation of the Department of Agriculture laboratory*
 - *Recovered approximately \$80,000 through the environmental unit's subrogation efforts*
 - *Provided migration of Risk Management training programs to on-line computer based training*
 - *Developed a paperless process for environmental claim management*
 - *Completed the insurance policies migration to a user friendly, paperless system, thereby reducing expenses related to pulling, copying and sending paper files needed for coverage verification*
 - *Assisted the Arizona State Land Department in the abatement of a fire hazard associated with an abandoned citrus orchard*

- *Developed a patient handling video for training purposes at the Arizona Department of Veterans' Services*
 - *Assisted the Arizona Department of Game and Fish in the development of best management practices for shooting ranges*
 - *Assisted the Arizona Department of Health Services with the closure of the Tucson laboratory*
- The Loss Prevention Section obtained two user licenses for a personal safety program addressing student safety. Both Northern Arizona University and Arizona State University have integrated the materials into their student safety programs.
 - A Loss Prevention representative attended over 200 hours of the Department of Economic Security caseworker training in an effort to identify opportunities to mitigate exposures and strengthen defenses for claims filed against the state.
 - The Loss Prevention Section continues to review cases with loss potential in excess of \$150,000. There are currently 65 active cases under review for exposure identification or mitigation plan monitoring. Loss Prevention continues to work with agencies to identify and appropriately address relevant exposures, develop mitigation plans, implement plans, and monitor and/or modify plans for effectiveness.
 - The implementation of a Document Management System (DMS) was completed for the Property & Liability Section creating a paperless claims adjusting process. Claims adjusting efficiency and effectiveness have been significantly improved through the Document Management System. The Workers' Compensation Section began implementation of the DMS by scanning open claim files and will gradually implement DMS claim processes in fiscal year 2011.
 - Risk Management implemented RightFax which integrates desktop document management with secure technology to provide flexible and efficient delivery and receipt of business information.
 - Risk Management conducted a customer satisfaction meeting with the three state universities (Arizona State University, the University of Arizona and Northern Arizona University) to improve agency interaction, communication and risk management education.

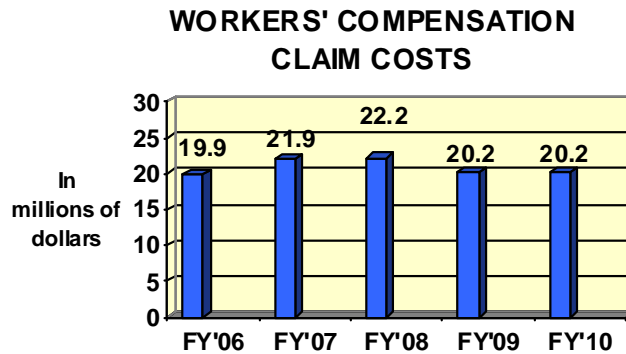
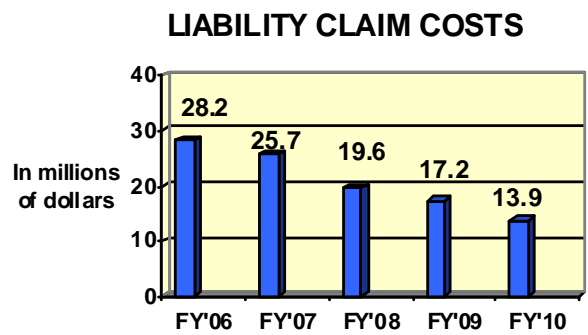
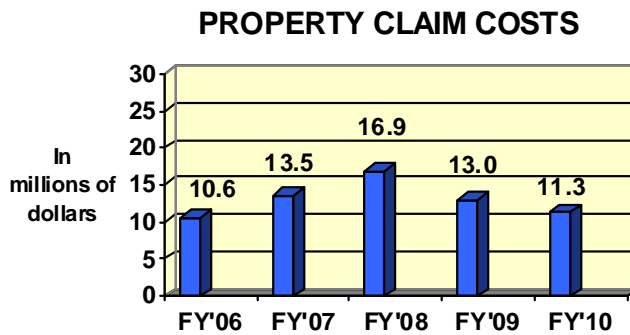
FISCAL YEAR 2010 COSTS AND COMPARISONS

Property expenditures in FY 2010 were \$11.3 million; a decrease of \$1.7 million from FY 2009, and \$1.7 million less than the five-year average of \$13 million.

Liability expenditures for FY 2010 were \$13.9 million - down from \$17.2 million in FY 2009. The five-year average for liability expenditures is \$20.9 million.

Workers' Compensation expenditures in FY 2010 showed no increase over FY 2009.

The following charts depict five-year cost comparisons:



LIABILITY PROGRAM

In the Fiscal Year 2010, there were 2,989 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2010, including outside counsel and allocated loss adjustment expenditures, were \$13.9 million. Figure 1 details the General Liability categories insured by the Risk Management Division. General liability includes third party bodily injury and property damage, highway maintenance, and negligence in oversight of state-managed programs. The category of personal liability includes such areas as employment discrimination, defamation, and civil rights violations. Medical malpractice includes errors and omissions by state medical professionals. Automobile liability includes third party claims for injuries and property damage resulting from the use of automobiles by state employees engaged in state business.

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 55% of the total cost. Personal Liability was second and represented 28% of the total cost. Medical malpractice payments were \$815,000. The following table breaks down the number of claims and amounts paid by loss type.

Figure 1

Loss Type	Frequency	Liability Losses
General Liability – Bodily Injury	356	\$7,553,000
General Liability – Property	1,357	\$658,000
Personal Liability	643	\$3,907,000
Medical Malpractice	44	\$815,000
Automobile Liability – Bodily Injury	60	\$507,000
Automobile Liability – Property	529	\$416,000
Total	2,989	\$13,856,000

Figure 2 shows payments made in Fiscal Year 2010 for the agencies with the largest liability losses ranked in descending order.

Figure 2

Agency	Liability Losses
Department of Economic Security	\$4,972,000
Department of Corrections	\$2,218,000
Department of Transportation	\$1,441,000
Arizona State University	\$1,237,000
Department of Public Safety	\$925,000
University of Arizona	\$881,000
Sub-Total	\$11,674,000
All Other Agencies	\$2,182,000
Total	\$13,856,000

PROPERTY PROGRAM

In Fiscal Year 2010, there were 4,907 property claims reported by state agencies. Losses totaled \$11.3 million.

The top two loss categories by frequency of occurrence and severity of payments were real and personal property. Real property covers facilities owned by the state such as office buildings, prison facilities and general infrastructure. Personal property includes state owned vehicles, furniture, computers and other tangible property. Figure 3 shows frequency of occurrence and severity of payments for property losses.

Figure 3

Loss Type	Frequency	Property Losses
Real Property	845	\$4,501,000
Environmental Property	16	\$4,237,000
Personal Property	4,037	\$2,578,000
Other	9	\$27,000
Total	4,907	\$11,343,000

The following table shows payments made in Fiscal Year 2010 for the agencies with the largest property losses ranked in descending order.

Figure 4

Agency	Property Losses
Department of Administration	\$3,412,000
Arizona State University	\$1,370,000
Department of Transportation	\$1,118,000
University of Arizona	\$864,000
State Land Department	\$758,000
Department of Public Safety	\$747,000
Schools for the Deaf & Blind	\$531,000
Northern Arizona University	\$398,000
Department of Corrections	\$386,000
Department of Economic Security	\$317,000
Sub-Total	\$9,901,000
All Other Agencies	\$1,442,000
Total	\$11,343,000

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured during the course and scope of their employment. The program pays medical, surgical, lost wages and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

The Managed Care Incentive Program provides quality medical care for state employees injured on the job. More than 48 hospitals, 3000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful. This system involves early notification of workers' compensation claims by injured state employees or their supervisors. Studies confirm that early notification allows for early claims management intervention which translates to cost savings. The 542-WORK phone line, allows injured employees or their supervisors to call in the first report of an industrial injury to the workers' compensation unit 24 hours a day, 7 days a week. During non-business hours, state employees are able to respond to questions regarding their injury via an automated system.

The Early Return to Work with Modified Duty Program continues to prove effective in many state agencies. A disability management specialist works with injured workers, their supervisors and managers to find positions within their agency that allow the injured worker to return to work as soon as possible. Placing an injured worker in these modified duty positions enables the employee to make a smooth and safe transition to their former duties or to a new position that is suitable for them.

In addition to managing the Modified Duty Program, the disability management nurse has helped implement the in-house Utilization Review Program. All medical diagnostic procedures must be reviewed for medical necessity and appropriateness before authorization. This process is typically completed within 24 hours to help ensure recovery of injured employees.

Figure 5 ranks the frequency and severity of payments for workers' compensation claims in Fiscal Year 2010 by agency.

Figure 5

Agency	Frequency	WC Losses
Department of Corrections	871	\$5,908,000
Department of Economic Security	342	\$2,412,000
Department of Public Safety	159	\$2,297,000
Department of Transportation	205	\$1,486,000
University of Arizona	286	\$1,461,000
Arizona State University	195	\$1,094,000
Department of Juvenile Corrections	113	\$866,000
Northern Arizona University	151	\$839,000
Department of Health Services	135	\$808,000
Arizona Superior Courts	155	\$615,000
Sub-total	2612	\$17,786,000
All other agencies	389	\$2,423,000
Total	3001	\$20,209,000

LOSS PREVENTION PROGRAM

The Arizona Revised Statutes require each state agency to conduct risk identification and assessment, and implement a loss prevention program to reduce frequency and severity of losses in the following areas:

- Real and personal property protection
- Employee safety in the work environment
- Federal and state standards for industrial hygiene and environmental protection
- Negligent acts that cause harm to third-parties

The primary responsibility of the Loss Prevention Unit is to work with state agencies to reduce or eliminate their exposure to risk. Risk Management Loss Prevention provides professional services in a variety of areas including property, liability, environmental, and worker protection.

Loss Prevention provides professional safety consultants, industrial hygienists and environmental specialists to assist agencies in developing and implementing loss prevention programs. Safety consultants also provide assistance in solving everyday loss prevention problems in the following areas:

- | | | |
|------------------------|--------------------------|-------------------------------|
| ➤ Construction Safety | ➤ Security | ➤ Site and Hazard Assessment |
| ➤ Industrial Safety | ➤ Course of Construction | ➤ Health and Safety Education |
| ➤ Hazard Communication | ➤ Motor Vehicle Safety | ➤ CPR |
| ➤ Fire Safety | ➤ Emergency Planning | ➤ Ergonomics |
| ➤ Fair Safety | | |

Assistance is provided in risk assessment and corrective action, program development and implementation by means of Assessment, Consultation, and Evaluation (ACE) Reports. An ACE report is a focused inspection and consultation to assess a particular risk exposure, along with written recommendations for corrective actions. The top three ACE subjects and recommended corrective actions are:

Fire and Security

- Fire Extinguisher Inspection, Maintenance, Service and Training
- Training on Fire Protection Practices
- Wildfire Preventative Actions
- Security Lighting Enhancements
- Fire Door Repair

Safety Inspection

- Guardrail Installation
- Emergency Evacuation Plans (Drills)
- Repair of Emergency Lighting/Exit Signs
- Secure Machinery

Building Indoor Air Quality

- Air Diffuser Cleaning
- General HVAC Maintenance
- Mold Consultation/Testing/Mitigation

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post offer physical examinations of potential state employees whose jobs put them at risk of occupational illness or injury. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2010, 760 post-offer exams were conducted. The average number of days to process exam findings was less than one day. Processing exam findings measures the turn-around period from the time the staff nurse receives the prospective state employee's medical information until the agency is notified of the candidate's status.

The total cost for Occupational Health Services exams in Fiscal Year 2010 was \$73,900.